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Report Highlights: Japan's fluid milk output is forecast to slightly increase in 2002 due to slow liquidation of dairy cows following the BSE crisis. Japan's NFDM surplus is expected to continue in 2002 due to stagnant ingredient demand. Despite an expected rise in butter production, supplies will likely remain tight, and imports of butter under the current access are anticipated. Japanese cheese imports are expected to rebound in 2002 driven by increased demand for natural cheese. Imports of U.S. natural cheese are up by 51% during the first quarter of 2002.

Includes PSD changes: Yes
Includes Trade Matrix: No
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Fluid Milk Section

Modest Rebound Forecast for Japan's National Milk Output in 2002

Japan's national fluid milk production in 2002 is revised upward to 8.35 million MT, a 1% increase over the previous year. Monthly fluid milk output in Hokkaido, a major dairy producing region, is reportedly up 2 - 3% during the first quarter of 2002, due to slow liquidation of spent dairy cows and government subsidies. This upward production trend is expected to continue through 2002.

Higher fluid milk output in Hokkaido will likely boost utilization of milk for processing, which is expected to increase by 3% to 3.36 million MT in 2002. Utilization of drinking milk is expected to remain sluggish in 2002, and is forecast to fall by 1% to 4.90 million MT. The decline in drinking milk utilization is primarily due to stiff competition from non-dairy beverages, such as soft drinks, teas, sport drinks, juices, and coffee flavored drinks. Sales of fluid and reconstituted milk will be dampened as consumers turn to new beverages available in Japan's retail sector.

Japanese Utilization of Fluid Milk for Drinking					
Period: January - December 1999 - 2001					
Unit: 1,000 Kilo Liters					
	1999	2000	% Chg.	2001	% Chg.
Regular Milk	3,890	3,895	0%	3,874	-1%
Processed Milk	767	677	-12%	575	-15%
Milk Beverages	1,258	1,216	-3%	1,231	1%
Fermented Milk	721	695	-4%	685	-1%
Note: Processed Milk; low fat, high fat, vitamin and mineral fortified, calcium enriched					
Milk Beverages; flavored milk (coffee and fruit flavored)					
Fermented Milk; Yogurt, etc.					
Source: Agriculture & Livestock Industry Corporation					

Lingering BSE concerns are contributing to increased milk production in Japan. Dairy farmers are retaining spent cows because slaughterhouses are reluctant to process older cows due to concerns over BSE. All four cases of BSE in Japan occurred in older dairy cows. As of March 2002, approximately 58,000 head of spent cows were being withheld on dairy farms, according to the Ministry of Agriculture, Forestry and Fisheries (MAFF). Until this year, dairy cow inventories had been declining. However, Japan's total dairy cow population in February 2002 was slightly above the previous year's level at 1.726 million head, the first increase in ten years (see table below).

Government subsidies to help dairy farmers through the BSE crisis are also causing increased milk output by providing incentives to increase production. These new support measures include an increase in the direct payment for dairy farmers to produce milk for processing, by 0.70 yen/kilo to 11.00 yen/kilo, during JFY (Japan Fiscal Year) 2002 (April 2002 - March 2003). [Note: In JFY 2001, Japan implemented a new supplementary payment system for raw milk for processing use (utilized for making subsidized nonfat milk and butter) to replace the deficiency payment scheme based on the government administered guaranteed price system. Fluid transaction prices for drinking and processing utilization are negotiated between producers and dairy manufacturers. (See post's reports JA 9103 and JA 9146).] The GOJ is also providing dairy farmers 30,000 yen per head for "replacement" cows to replenish herds. The program will subsidize up to 300,000 cows until March 2003. In addition, Japanese cooperatives and feed manufacturers are providing funds to assist dairy farmers with higher feed costs. The National Federation of Agricultural Cooperatives (JA ZENNO) and the Private Feed Manufacturers Association are providing Yen 1,300/MT for dairy farmers to purchase compound feed during April and June of this year.

Table: Japanese Dairy Herd Inventory					
Unit: 1,000 Heads/Farms					
	2000	2001	% Chg.	2002	% Chg.
Inventory As of:	February	February		February	
Total Dairy Cow	1,764	1,725	-2%	1,726	0%
Milking	992	971	-2%	966	-1%
Dry	158	153	-3%	160	5%
Heifer	615	601	-2%	599	-0%
Total Dairy Farm	33,600	32,200	-4%	31,000	-4%
Cow Raised per Farm (head)	52.5	53.5		55.7	
	2000	2001	% Chg.	2002	% Chg.
Inventory As of:	August	August		August	
Total Dairy Cow	1,753	1,719	-2%	NA	NA
Milking	977	955	-2%	NA	NA
Dry	171	167	-2%	NA	NA
Heifer	605	598	-1%	NA	NA
Source: Ministry of Agriculture, Forestry and Fisheries					

World Cup May Temporarily Boost Consumption of Milk and Dairy Products

Trade sources expect demand for dairy products to temporarily spike during the 2002 World Cup Soccer event in Japan this summer (June - July). Increased consumption of dairy-based beverages along with butter and cheese, is anticipated.

Non Fat Dry Milk Section

Eliminating Japan's NFDM Surplus Situation in 2002 Largely Depends on Ingredient Demand

In 2002, domestic NFDM output is forecast to rise by 6% to 185,000 MT, reflecting increased fluid milk output, particularly in the Hokkaido region, which is expected to be diverted for processing. This will exacerbate the existing NFDM oversupply situation in Japan. Since last year, NFDM stocks have been accumulating due to sluggish ingredient demand. March ending stocks rose by 10,000 MT from the year beginning to 76,000 MT. The key to ending the NFDM surplus is whether sluggish demand for milk-based products (reconstituted and fermented products, milk beverages, dairy-based soft drinks, ice creams) strengthens.

One bright spot in the NFDM picture is that consumption of yogurt products has recently strengthened, due in part to television programs emphasizing the health benefits of these products. In addition, consumption of ice cream and ice milk products is reportedly up due to a warmer than normal spring.

Import demand for NFDM is forecast to drop by 25% to 40,000 MT in 2002 due to the oversupply situation. Consequently, Japan may commit a substantial portion of the current access to purchase other dairy products such as butter during the current fiscal year (see the butter section).

Japanese Imports of Non Fat Dry Milk					
Period: January - December 1999 - 2001					
Unit: 1,000 Kilo Liters					
	1999	2000	% Chg.	2001	% Chg.
For School Lunch Program	3,771	3,571	-5%	3,346	-6%
For Feeds	32,231	32,581	1%	33,380	2%
For Other Use (Current Access)	20,464	16,219	-21%	15,830	-2%
Total NFDM Imports	56,466	52,371	-7%	52,556	0%
Source: Agriculture & Livestock Industry Corporation					

Butter Section

Butter Supplies Will Likely Remain Tight in 2002; Imports for Industrial Uses Under the Current Access Possible

FAS/Tokyo forecasts Japan's 2002 butter production to rise by 6% (to 85,000 MT) from the previous year. Higher production is expected to alleviate the deficit supply of non-salt added butter for ingredient use. However, due to the termination of HFC (high fat cream cheese) imports from Australia, the scarcity of butter for ingredient use is expected to persist in 2002, raising the specter of butter imports under the current access in JFY 2002 (April 2002 - March 2003).

Domestic consumption of butter in 2001 rose by 10% to about 92,000 MT, reflecting the actual butter demand in the absence of HFC. In previous years, Australian HFC was utilized by Japanese butter ingredient users. However, the HS committee's decision to re-categorize HFC as a "dairy spread" virtually terminated imports of HFC, boosting internal demand for domestic butter for ingredient use. As a result, butter ending stocks dropped to 21,000 MT in 2001, a 36% decline from the previous year. To replenish depleted stocks, Japan imported 3,484 MT of butter from New Zealand under the current earlier this year. This helped to increase the monthly ending stock level in March (2002) to 26,000 MT.

FAS/Japan forecasts the annual distribution of butter (direct consumption and industrial use combined) in 2002 to fall by 4% to 88,000 MT. Lethargic demand for salt-added butter for direct consumption will likely more than offset increased demand for non-salt added butter for industrial purposes.

To bridge the supply gap caused by the absence of imported HFC in the market, Japan may purchase additional supplies of butter under the current access this year, which equates to about 3,500 MT. This would likely ease the tight supply situation for ingredient butter utilization, which may materialize later in the year.

Cheese Section

Positive Outlook for Japan's Cheese Situation in 2002, Supported by Potential World Cup Demand

FAS/Tokyo is revising Japan's cheese market outlook for 2002, forecasting a 5% increase in imports, to 212,000 MT, and a 4% increase in consumption to 245,000 MT. Previously, Post noted the impact of Japan's prolonged economic recession and deflation on overall cheese consumption. However, industry sources expect a stronger market outlook for cheese in 2002, due in part to a potential boost in demand during the World Cup this summer. In addition, strong trends toward healthy foods may also help to improve cheese consumption.

Import Demand for Raw Material Natural Cheese Forecast to Rebound in 2002

FAS/Tokyo expects Japan's cheese imports to rebound in 2002 to 212,000 MT, a 5% increase over last year. Trade data for the first quarter of 2002 shows a 10% increase in natural cheese imports. A sharp rise in imports of fresh cheese accounts for most of the increase (see table below).

By country, imports from the U.S., Australia, Germany, Netherlands and Italy, were up during the first quarter, offsetting declines from New Zealand and some EU countries. Despite a strong dollar, imports from the U.S. were up by 51%, owing to the growing popularity of American natural cheese in Japan. According to the U.S. Dairy Export Council (USDEC), demand for U.S. fresh mozzarella and cream cheese is particularly strong. USDEC's promotional activities with a major national retailer and food service chains has yielded positive results for imports of U.S. fresh cheese, with imports up by 62% during the first quarter of 2002.

Based on the most recent production and trade data, FAS/Tokyo notes that overall cheese distribution in 2001 dropped by 2% to 235,000 MT, while total imports (natural and processed cheeses combine) fell by 1% to 202,000 MT. Industry sources attribute these declines to termination of HFC imports from Australia, and reduced production of domestic processed cheese. Reportedly, cheese processing facilities operated by Snow Brand Foods, the largest cheese manufacturer in Japan, operated below capacity in 2001 due to food safety problems, causing import demand for raw material natural cheese to slacken.

Japanese Cheese Imports By Country (Volume) 1999 - 2001					
Unit: Metric Ton					
	1999	2000		2001	
	JAN/DEC	JAN/DEC		JAN/DEC	
Australia	78,447	89,594	14%	80,028	-11%
New Zealand	50,655	49,678	-2%	53,413	8%
France	4,918	5,697	16%	6,208	9%
Germany	7,821	10,855	39%	12,298	13%
Netherlands	7,586	9,127	20%	10,239	12%

Denmark	12,436	13,035	5%	14,156	9%
Norway	7,844	6,903	-12%	5,931	-14%
USA	4,023	4,336	8%	4,472	3%
Canada	4,743	5,452	15%	4,034	-26%
Others	8,432	10,447	24%	11,296	8%
ALL CHEESE TOTAL	186,904	205,123	10%	202,076	-1%
Source: World Trade Atlas (Natural and Process Cheese Combined)					

Exclusion of HFC May Promote Imports of Australian Medium Fat Cream Cheese in 2002

Despite the exclusion of HFC, imports of Australian natural cheese surged 34% during the first quarter of 2002. According to trade sources, Australian fresh cheese accounted for most of the increase, jumping by 71%. Total imports from Australia are expected to rise in 2002, reflecting growing import demand for cream cheese with a medium fat content (reportedly 50 - 60%, much lower than HFC at 70 - 80%). Medium fat content cream cheese has typically been used for dairy-based dessert products in Japan, although alternative demand for these products is growing following the termination of HFC imports. In addition, demand for Australian raw material natural cheese imported under the "pooled quota" has strengthened in recent months as Snow Brand processing facilities that had been operating below capacity, have reportedly resumed normal levels of production.

Japanese Imports of Natural Cheese by Country		
Period: January - March, 2002		
Unit: Metric Ton		
	2002 (Jan. - Mar.)	% Chg.
Australia	27,846	3%
New Zealand	11,164	-19%
France	525	-16%
Germany	3,105	23%
Netherlands	2,284	10%
Denmark	2,784	-5%
Norway	1,516	-5%
Italy	918	8%
USA	1,304	51%
Canada	533	-54%
Others	1,263	NA
All Natural Cheese Total	53,242	10%
Source: Dairy Farming and Industry Press (April 30, 2002)		

Note: Figures do not include Processed Cheese

Japanese Imports of Natural Cheese by Type				
Period: January - March, 2002				
Unit: Metric Ton				
	2002 (Jan. - Mar.)	% Chg.	Ave. CIF/kilo	% Chg.
Fresh Cheese, Within Pooled Quota (PQ)	523	51%	287.50	9%
Fresh Cheese, Frozen	413	90%	412.60	34%
Fresh Cheese, Other	20,056	38%	300.52	6%
Powdered/Grated Cheese	559	-0%	1,302.86	18%
Blue-veined Cheese, Within Pooled Quota	1	NA	1,084.30	NA
Blue-veined Cheese, Other than PQ	132	-18%	1,213.34	6%
Other Natural Cheese, Within Pooled Quota	11,332	-7%	338.61	22%
Other Natural Cheese, Other than PQ	20,224	-2%	375.65	20%
All Natural Cheese Total	53,242	10%	349.87	14%
Source: Dairy Farming and Industry Press (April 30, 2002)				
Original Source is Ministry of Finance				

Note: Figures do not include Processed Cheese

Japanese Fluid Milk PS&D Table

PSD Table						
Country	Japan					
Commodity	Dairy, Milk, Fluid				(1000 HEAD)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Cows In Milk	992	992	971	971	955	966
Cows Milk Production	8497	8497	8300	8302	8170	8350
Other Milk Production	0	0	0	0	0	0
TOTAL Production	8497	8497	8300	8302	8170	8350
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	8497	8497	8300	8302	8170	8350
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	4971	4971	4970	4943	4830	4900
Factory Use Consum.	3421	3421	3230	3266	3250	3360
Feed Use Dom. Consum.	105	105	100	93	90	90
TOTAL Dom. Consumption	8497	8497	8300	8302	8170	8350
TOTAL DISTRIBUTION	8497	8497	8300	8302	8170	8350
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Japanese Non Fat Dry Milk PS&D Table

PSD Table						
Country	Japan					
Commodity	Dairy, Milk, Nonfat Dry				(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Beginning Stocks	34	34	45	45	50	66
Production	194	194	176	175	180	185
Intra EC Imports	0	0	0	0	0	0
Other Imports	52	52	45	53	40	40
TOTAL Imports	52	52	45	53	40	40
TOTAL SUPPLY	280	280	266	273	270	291
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	202	202	188	174	185	185
Other Use, Losses	33	33	28	33	28	31
Total Dom. Consumption	235	235	216	207	213	216
TOTAL Use	235	235	216	207	213	216
Ending Stocks	45	45	50	66	57	75
TOTAL DISTRIBUTION	280	280	266	273	270	291
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Japanese Butter BS&D Table

PSD Table						
Country	Japan					
Commodity	Dairy, Butter				(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Beginning Stocks	29	29	33	33	27	21
Production	88	88	77	80	78	85
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	3	7
TOTAL Imports	0	0	0	0	3	7
TOTAL SUPPLY	117	117	110	113	108	113
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Domestic Consumption	84	84	83	92	83	88
TOTAL Use	84	84	83	92	83	88
Ending Stocks	33	33	27	21	25	25
TOTAL DISTRIBUTION	117	117	110	113	108	113
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Japanese Cheese PS&D Table

PSD Table						
Country	Japan					
Commodity	Dairy, Cheese				(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Beginning Stocks	15	15	15	15	15	15
Production	34	34	33	33	33	33
Intra EC Imports	0	0	0	0	0	0
Other Imports	205	205	200	202	200	212
TOTAL Imports	205	205	200	202	200	212
TOTAL SUPPLY	254	254	248	250	248	260
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	239	239	233	235	233	245
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	239	239	233	235	233	245
TOTAL Use	239	239	233	235	233	245
Ending Stocks	15	15	15	15	15	15
TOTAL DISTRIBUTION	254	254	248	250	248	260
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0